

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Mike Miller, Marshall County Judge/Executive

Members of the Marshall County Fiscal Court

The enclosed report prepared by Dean Dorton Allen Ford, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Dean Dorton Allen Ford, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Dean Dorton Allen Ford, PLLC evaluated the Marshall County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT

June 30, 2011

Dean Dorton Allen Ford, PLLC has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2011. They have issued unqualified opinions, based on their audit and the report of the other auditors, on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky.

In accordance with OMB Circular A-133, they have issued an unqualified opinion on the compliance requirements that are applicable to Marshall County's major federal programs: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) and Delta Area Economic Development (CFDA #90.201).

Financial Condition:

The Fiscal Court had total net assets of \$18,998,007 as of June 30, 2011. Of this amount, the Fiscal Court had unrestricted net assets of \$3,381,018 in its governmental activities, with total net assets of \$18,854,850. In its business-type activities, total cash and cash equivalents were \$143,157 with total net assets of \$143,157. The Fiscal Court's discretely presented component unit had net assets of \$1,945,406 as of June 30, 2011. The discretely presented component unit had cash and cash equivalents of \$536,247. The Fiscal Court had total debt principal as of June 30, 2011 of \$5,667,214 with \$357,214 due within the next year.

Report Comments:

- 2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2011-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2011-03 The Fiscal Court Has A Deficit of \$240,756 In The Payroll Revolving Account
- 2011-04 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

Deposits:

The Fiscal Court and component unit's deposits were insured and collateralized by bank securities.

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DEAN || DORTON || ALLEN || FORD_{LLC}

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditor whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

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To the People of Kentucky
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The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements. The Budgetary Comparison Information on page 39 through 43 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on pages 45 through 47, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2011 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying Schedule of Findings and Questioned Costs included herein, which discusses the following report comments:

- 2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2011-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2011-03 The Fiscal Court Has A Deficit of \$240,756 In The Payroll Revolving Account
- 2011-04 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

Respectfully submitted,

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC
December 28, 2011

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Mike Miller	County Judge/Executive
Misti Drew	Commissioner
Terry Anderson	Commissioner
Bob Gold	Commissioner

Other Elected Officials:

Jeff Edwards	County Attorney
Roger Ford	Jailer
Tim York	County Clerk
Carla Marshall	Circuit Court Clerk
Kevin Byars	Sheriff
Tony Henson	Property Valuation Administrator
Mitchell Lee	Coroner

Appointed Personnel:

Emily Martin	County Treasurer
Angie Murphy	Occupational Tax Collector
Karen Freeman	Finance Officer
Russell York	Road Supervisor
Jason Luebker	911 Administrator
Laurie Ford	Jail Administrative Assistant/Bookkeeper

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MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government			Component Unit
	Governmental	Business-Type		Marshall County
	Activities	Activities	Totals	Refuse Disposal
				District
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 3,381,018	\$ 143,157	\$ 3,524,175	\$ 536,247
Total Current Assets	3,381,018	143,157	3,524,175	536,247
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	2,160,113		2,160,113	755,637
Buildings	10,755,495		10,755,495	129,573
Vehicles and Equipment	2,418,153		2,418,153	541,449
Infrastructure	5,807,285		5,807,285	
Total Noncurrent Assets	21,141,046		21,141,046	1,426,659
Total Assets	24,522,064	143,157	24,665,221	1,962,906
LIABILITIES				
Current Liabilities:				
Bonds Payable	340,000		340,000	
Financing Obligations	17,214		17,214	
Payroll Liabilities				17,500
Total Current Liabilities	357,214		357,214	17,500
Noncurrent Liabilities:				
Bonds Payable	5,310,000		5,310,000	
Total Liabilities	5,667,214		5,667,214	17,500
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	15,473,832		15,473,832	1,426,659
Unrestricted	3,381,018	143,157	3,524,175	518,747
Total Net Assets	\$ 18,854,850	\$ 143,157	\$ 18,998,007	\$ 1,945,406

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,206,078	\$ 144,659	\$ 972,111	\$ 80,780
Protection to Persons and Property	2,908,101	1,157,497	290,628	317,612
General Health and Sanitation	1,370,037		23,666	966,650
Social Services	245,475			
Recreation and Culture	695,767		202,550	
Roads	3,125,924	6,342		1,661,060
Other Transportation Facilities	7,302			
Interest on Long-Term Debt	317,112			
Capital Projects	80,000			
Total Governmental Activities	14,955,796	1,308,498	1,488,955	3,026,102
Business-type Activities:				
Jail Canteen	43,281	52,247		
Total Business-type Activities	43,281	52,247		
Total Primary Government	\$ 14,999,077	\$ 1,360,745	\$ 1,488,955	\$ 3,026,102
Component Units:				
Marshall County Refuse Disposal District	2,025,278			
Total Component Units	\$ 2,025,278	\$ 0	\$ 0	\$ 0

General Revenues:

Taxes:

Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Occupational Taxes
 Other Taxes
 In Lieu Of Tax
 Excess Fees
 Reimbursements
 Miscellaneous Revenues
 Transfers
 Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (5,008,528)	\$	\$ (5,008,528)	\$
(1,142,364)		(1,142,364)	
(379,721)		(379,721)	
(245,475)		(245,475)	
(493,217)		(493,217)	
(1,458,522)		(1,458,522)	
(7,302)		(7,302)	
(317,112)		(317,112)	
(80,000)		(80,000)	
(9,132,241)		(9,132,241)	
	8,966	8,966	
	8,966	8,966	
(9,132,241)	8,966	(9,123,275)	
			(2,025,278)
			(2,025,278)
1,469,560		1,469,560	
186,514		186,514	
264,331		264,331	
4,792,749		4,792,749	
593,068		593,068	1,607,677
1,346,019		1,346,019	
230,573		230,573	
			47,381
316,844		316,844	36,421
19,853	(19,853)		300,000
107,144	309	107,453	14,149
9,326,655	(19,544)	9,307,111	2,005,628
194,414	(10,578)	183,836	(19,650)
18,660,436	153,735	18,814,171	1,965,056
\$ 18,854,850	\$ 143,157	\$ 18,998,007	\$ 1,945,406

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	Federal Grant Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,988,123	\$ 247,505	\$ 39,152	\$ 16,715
Total Assets	<u>1,988,123</u>	<u>247,505</u>	<u>39,152</u>	<u>16,715</u>
FUND BALANCES				
Restricted For:				
Protection to Persons and Property			39,152	
Roads		223,773		
General Health and Sanitation				16,715
Debt Service				
Capital Projects				
Assigned To:				
Protection to Persons and Property				
Roads		23,732		
Unassigned	<u>1,988,123</u>			
Total Fund Balances	<u>\$ 1,988,123</u>	<u>\$ 247,505</u>	<u>\$ 39,152</u>	<u>\$ 16,715</u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 18,520	\$ 903,544	\$ 167,459	\$ 3,381,018
18,520	903,544	167,459	3,381,018
		51,878	91,030
			223,773
			16,715
18,520			18,520
	903,544		903,544
		115,581	115,581
			23,732
			1,988,123
\$ 18,520	\$ 903,544	\$ 167,459	\$ 3,381,018

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement of Net Assets:

Total Fund Balances	\$ 3,381,018
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	32,025,514
Accumulated Depreciation	(10,884,468)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Due In One Year-Bond And Financing Obligation Principal Payments	(357,214)
Due In More Than One Year-Bond And Financing Obligation Principal Payments	(5,310,000)
Net Assets Of Governmental Activities	<u>\$ 18,854,850</u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	Federal Grant Fund
REVENUES				
Taxes	\$ 7,054,312	\$	\$	\$
In Lieu Tax Payments	1,346,019			
Excess Fees	230,573			
Licenses and Permits	117,126			
Intergovernmental	915,173	1,849,500	1,271,363	966,650
Charges for Services	27,533	6,342	31,150	
Miscellaneous	293,665	6,153	17,016	
Interest	50,292	11,237	1,794	47
Total Revenues	<u>10,034,693</u>	<u>1,873,232</u>	<u>1,321,323</u>	<u>966,697</u>
EXPENDITURES				
General Government	3,549,734			
Protection to Persons and Property	487,363		1,372,243	
General Health and Sanitation	415,280			954,757
Social Services	240,067			
Recreation and Culture	695,757			
Roads	1,953,796	1,513,764		
Other Transportation Facilities	7,302			
Debt Service	17,214			
Capital Projects	80,000			
Administration	2,616,030	487,931	570,355	
Total Expenditures	<u>10,062,543</u>	<u>2,001,695</u>	<u>1,942,598</u>	<u>954,757</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(27,850)</u>	<u>(128,463)</u>	<u>(621,275)</u>	<u>11,940</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		132,825	643,797	4
Transfers To Other Funds	(757,829)		(123,944)	
Total Other Financing Sources (Uses)	<u>(757,829)</u>	<u>132,825</u>	<u>519,853</u>	<u>4</u>
Net Change in Fund Balances	(785,679)	4,362	(101,422)	11,944
Fund Balances - Beginning	<u>2,773,802</u>	<u>243,143</u>	<u>140,574</u>	<u>4,771</u>
Fund Balances - Ending	<u><u>\$ 1,988,123</u></u>	<u><u>\$ 247,505</u></u>	<u><u>\$ 39,152</u></u>	<u><u>\$ 16,715</u></u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 251,910	\$ 7,306,222
			1,346,019
			230,573
			117,126
490,324		148,391	5,641,401
			65,025
		10	316,844
3	40,741	3,033	107,147
<u>490,327</u>	<u>40,741</u>	<u>403,344</u>	<u>15,130,357</u>
			3,549,734
		374,857	2,234,463
			1,370,037
			240,067
			695,757
			3,467,560
			7,302
638,688			655,902
			80,000
2,003	520	132,322	3,809,161
<u>640,691</u>	<u>520</u>	<u>507,179</u>	<u>16,109,983</u>
			3,549,734
			2,234,463
			1,370,037
			240,067
			695,757
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			695,757
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			7,302
638,688			655,902
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**MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change In Fund Balances - Total Governmental Funds	\$ (959,773)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement of Activities The Costs Of Those Assets Are Allocated Over Their Estimated Useful Lives, And Are Reported As Depreciation Expense	
Capital Outlay	2,213,951
Depreciation Expense	(1,380,927)
Assets Disposed Of, Net Book Value	(17,627)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Principal Payments Are Expenses In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However Have No Effect On Net Assets.	
Financing Obligation Principal Payments	13,790
Bond Principal Payments	<u>325,000</u>
Change In Net Assets of Governmental Activities	<u><u>\$ 194,414</u></u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 143,157</u>
Total Current Assets	<u>143,157</u>
Net Assets	
Unrestricted	<u>143,157</u>
Total Net Assets	<u><u>\$ 143,157</u></u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 52,247
Total Operating Revenues	<u>52,247</u>
Operating Expenses	
Cost of Sales	21,897
Inmate Benefit	<u>21,384</u>
Total Operating Expenses	<u>43,281</u>
Operating Income	<u>8,966</u>
Nonoperating Revenues (Expenses)	
Interest Income	309
Transfer Out	<u>(19,853)</u>
Total Nonoperating Revenues	<u>(19,544)</u>
Change In Net Assets	(10,578)
Total Net Assets - Beginning	<u>153,735</u>
Total Net Assets - Ending	<u><u>\$ 143,157</u></u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Canteen Commissions	\$ 52,247
Cash Payments To Vendors	(43,281)
Net Cash Provided By Operating Activities	8,966
Cash Flows From Non Capital Financing Activities	
Transfer Out To Jail Fund	(19,853)
Net Cash Used In Investing Activities	(19,853)
Cash Flows From Investing Activities	
Interest Earned	309
Net Cash Provided By Investing Activities	309
Net Decrease In Cash and Cash Equivalents	(10,578)
Cash and Cash Equivalents - July 1	153,735
Cash and Cash Equivalents - June 30	\$ 143,157
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 8,966
Net Cash Provided By Operating Activities	\$ 8,966

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County prepares its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit, Continued

Marshall County Public Properties Corporation

The Marshall County Public Properties Corporation cannot be sued in its own name without recourse to the Marshall County Fiscal Court, which appoints a voting majority consisting of Fiscal Court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation, as the Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources and is legally obligated to finance the debts of, or provide financial support to, the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Marshall County's financial statements as the Public Properties Corporation Justice Center Debt Service Fund and the Public Properties Corporation Justice Center Capital Projects Fund.

Discretely Presented Component Units

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The Fiscal Court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements.

Audited financial statements for the Marshall County Refuse District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main Street, P.O. Box 114, Benton, Kentucky 42025.

C. Marshall County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Marshall County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Federal Grant Fund - The purpose of this fund is to account for federal grant receipts and disbursements.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the Fiscal Court.

Public Properties Corporation Justice Center Capital Projects Fund – The purpose of this fund is to account for the construction activities of the Public Properties Corporation, a blended component unit of the Fiscal Court.

The primary government also has the following non-major funds: Emergency 911 Fund and Wireless 911 Fund which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds

The Road Fund, Jail Fund, Federal Grant Fund, Emergency 911 Fund, and Wireless 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund

The Public Properties Corporation Justice Center Capital Projects Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Fund

The Public Properties Corporation Justice Center Debt Service Fund is presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to inmates for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles, machinery and equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable components include the following:

- Restricted - amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed - amounts constrained for a specific purpose by the County using its highest level of decision making authority.
- Assigned - for all governmental funds, other than the general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated County committee or official given authority to assign amounts.
- Unassigned - for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the County issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the County has designated the County Treasurer to carry out the intent of the Fiscal Court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Justice Center Debt Service Fund, the Public Properties Corporation Justice Center Capital Projects Fund or the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The State Local Finance Officer does not require the Public Properties Corporation Justice Center Debt Service Fund, the Public Properties Corporation Justice Center Capital Projects Fund or the Jail Canteen Fund to be budgeted because the Fiscal Court does not approve expenses from these funds.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated, Marshall County-Calvert City Riverport Authority, and Industrial Development Authority.

K. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Fiscal Court requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Therefore, actual results could differ from those estimates. The most significant estimate used is the estimated useful lives in determining depreciation expense. Estimated lives are based on a reasonable time that the asset might last. However, many assets are used for much longer periods.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 3. Interfund Receivables, Payables, and Transfers

	Road Fund	Jail Fund	Federal Grant Fund	Public Properties Corporation Justice Center Debt Service Fund	Non-Major Governmental Funds	Total Transfers Out
General Fund	\$ 8,881	\$623,944	\$ 4	\$	\$ 125,000	\$ 757,829
Jail Fund	123,944					123,944
Public Properties Corporation Justice Center Capital Projects Fund				150,364		150,364
Jail Canteen Fund		19,853				19,853
Total Transfers In	<u>\$ 132,825</u>	<u>\$643,797</u>	<u>\$ 4</u>	<u>\$ 150,364</u>	<u>\$ 125,000</u>	<u>\$ 1,051,990</u>

Reasons For Transfers:

1. To move resources from the General Fund, for budgetary purposes, to the fund that will expend them;
2. To move restricted resources from the Road Fund to the Jail Fund;
3. To move resources from the Capital Projects Fund to the Debt Service Fund for debt service expenditures.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,075,045	\$ 85,068	\$	\$ 2,160,113
Total Capital Assets Not Being Depreciated	<u>2,075,045</u>	<u>85,068</u>		<u>2,160,113</u>
Capital Assets, Being Depreciated:				
Buildings	14,727,751	224,923		14,952,674
Vehicles and Equipment	5,835,164	292,467	(109,631)	6,018,000
Infrastructure	7,283,234	1,611,493		8,894,727
Total Capital Assets Being Depreciated	<u>27,846,149</u>	<u>2,128,883</u>	<u>(109,631)</u>	<u>29,865,401</u>
Less Accumulated Depreciation For:				
Buildings	(3,935,239)	(261,940)		(4,197,179)
Vehicles and Equipment	(3,303,638)	(388,213)	92,004	(3,599,847)
Infrastructure	(2,356,668)	(730,774)		(3,087,442)
Total Accumulated Depreciation	<u>(9,595,545)</u>	<u>(1,380,927)</u>	<u>92,004</u>	<u>(10,884,468)</u>
Total Capital Assets, Being Depreciated, Net	<u>18,250,604</u>	<u>747,956</u>	<u>(17,627)</u>	<u>18,980,933</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,325,649</u>	<u>\$ 833,024</u>	<u>\$ (17,627)</u>	<u>\$ 21,141,046</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 228,381
Protection to Persons and Property	235,779
Social Services	5,408
Recreation and Culture	30,554
Roads, Including Depreciation of General Infrastructure Assets	<u>880,805</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,380,927</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Land and Land Improvements	\$ 937,420	\$ 63,121	\$ 0	\$ 1,000,541
Buildings	182,332			182,332
Vehicles and Equipment	<u>1,191,060</u>	<u>85,323</u>		<u>1,276,383</u>
Total Capital Assets Being Depreciated	2,310,812	148,444		2,459,256
Less Accumulated Depreciation For:				
Land and Land Improvements	(214,859)	(30,045)		(244,904)
Buildings	(49,286)	(3,473)		(52,759)
Vehicles and Equipment	<u>(657,204)</u>	<u>(77,730)</u>		<u>(734,934)</u>
Total Accumulated Depreciation	<u>(921,349)</u>	<u>(111,248)</u>		<u>(1,032,597)</u>
Capital Assets, Net	<u>\$ 1,389,463</u>	<u>\$ 37,196</u>	<u>\$ 0</u>	<u>\$ 1,426,659</u>

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 111,248</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 111,248</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2000

On October 1, 2000, the Marshall County Public Properties Corporation (Corporation) issued First Mortgage Revenue Bonds, Series 2000, in the amount of \$8,005,000 for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. Principal payments are due March 1, beginning in 2003, and interest, which is fixed at 5.25%, is payable semiannually on March 1 and September 1, beginning March 1, 2001. The outstanding balance as of June 30, 2011, was \$5,650,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 340,000	\$ 296,625
2013	360,000	278,775
2014	380,000	259,875
2015	400,000	239,925
2016	425,000	218,925
2017-2021	2,525,000	732,898
2022-2023	1,220,000	96,862
Totals	<u>\$ 5,650,000</u>	<u>\$ 2,123,885</u>

On October 1, 2000, the Corporation entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 74% of the debt service requirements with the remaining 26% to be paid by the Corporation.

The bonds are secured by a foreclosable first mortgage lien on the property and an assignment by the Corporation of its rights, title and interest in the lease with AOC.

B. Marshall County Caring/Needline Building

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the Bank of Benton for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5% for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000, which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The outstanding balance of the note as of June 30, 2011 was \$17,214.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,975,000	\$	\$ 325,000	\$ 5,650,000	\$ 340,000
Financing Obligations	31,004		13,790	17,214	17,214
Governmental Activities					
Long-term Liabilities	<u>\$ 6,006,004</u>	<u>\$ 0</u>	<u>\$ 338,790</u>	<u>\$ 5,667,214</u>	<u>\$ 357,214</u>

Note 6. Related Party Transactions

A. Timber Bridge Company

The Marshall County Fiscal Court entered into a construction contract with Timber Bridge of Kentucky for the construction of a bridge. County Judge/Executive Mike Miller is employed as a salesman for Timber Bridge of Kentucky. Marshall County Fiscal Court paid Timber Bridge of Kentucky \$132,463 during fiscal year ended June 30, 2011.

B. Magic Valley BBQ

The Marshall County Fiscal Court entered into catering transactions with Magic Valley BBQ. County Attorney Jeff Edwards owns an interest in Magic Valley BBQ. Marshall County Fiscal Court paid Magic Valley BBQ \$950 during fiscal year ended June 30, 2011.

Note 7. Employee Retirement System

The Fiscal Court and the Marshall County Refuse Disposal District, a discretely presented component unit, has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 16.93 percent.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 7. Employee Retirement System (Continued)

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percentage will go to the KRS insurance fund. The County's contribution rate for hazardous employees was 33.25 percent.

The contribution requirements and the amounts contributed to CERS were \$1,099,360, \$1,297,973, and \$1,365,847, respectively for the years ended June 30, 2009, 2010, and 2011.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2011, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Landfill Closure and Post-Closure Costs

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This is implemented as amendments to KRS 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and its authorized agents the right to enter upon this land for the purpose of performing such activities.

Note 10. Subsequent Event

In November 2011, the Marshall County Public Properties Corporation (a blended component unit) authorized the Fiscal Court to issue General Obligation Refunding Bonds in a principal amount not to exceed \$6,000,000 for the purpose of refunding the outstanding balance of the First Mortgage Revenue Bonds (Justice Center Project), Series 2000. A public hearing has been scheduled in December 2011 with the State Local Debt Officer and upon approval the bonds are expected to be issued.

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,227,000	\$ 2,227,000	\$ 2,261,563	\$ 34,563
In Lieu Tax Payments	1,425,000	1,425,000	1,346,019	(78,981)
Excess Fees	144,700	144,700	230,573	85,873
Licenses and Permits	95,000	95,000	117,126	22,126
Intergovernmental Revenue	273,300	273,300	897,959	624,659
Charges for Services			27,533	27,533
Miscellaneous	191,000	191,000	253,872	62,872
Interest	4,000	4,000	19,157	15,157
Total Revenues	4,360,000	4,360,000	5,153,802	793,802
EXPENDITURES				
General Government	2,278,800	2,876,447	2,862,488	13,959
Protection to Persons and Property	474,700	480,326	475,525	4,801
General Health and Sanitation	155,400	123,684	115,280	8,404
Social Services	210,900	242,642	240,067	2,575
Recreation and Culture	20,000	32,734	31,753	981
Debt Service	153,000			
Capital Projects	75,000	80,000	80,000	
Administration	2,892,200	2,424,167	2,421,640	2,527
Total Expenditures	6,260,000	6,260,000	6,226,753	33,247
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(1,900,000)	(1,900,000)	(1,072,951)	827,049
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	1,200,000	1,200,000	1,300,000	100,000
Transfers to Other Funds			(609,629)	(609,629)
Total Other Financing Sources (Uses)	1,200,000	1,200,000	690,371	(509,629)
Net Changes in Fund Balance	(700,000)	(700,000)	(382,580)	317,420
Fund Balance - Beginning	700,000	700,000	615,781	(84,219)
Fund Balance - Ending	\$ 0	\$ 0	\$ 233,201	\$ 233,201

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,221,000	\$ 1,748,000	\$ 1,849,500	\$ 101,500
Charges for Services	5,500	5,500	6,342	842
Miscellaneous	11,000	11,000	6,153	(4,847)
Interest	2,500	2,500	11,237	8,737
Total Revenues	<u>1,240,000</u>	<u>1,767,000</u>	<u>1,873,232</u>	<u>106,232</u>
EXPENDITURES				
Roads	1,212,700	1,541,089	1,513,764	27,325
Administration	<u>527,300</u>	<u>725,911</u>	<u>487,931</u>	<u>237,980</u>
Total Expenditures	<u>1,740,000</u>	<u>2,267,000</u>	<u>2,001,695</u>	<u>265,305</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(500,000)</u>	<u>(500,000)</u>	<u>(128,463)</u>	<u>371,537</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			<u>132,825</u>	<u>132,825</u>
Total Other Financing Sources (Uses)			<u>132,825</u>	<u>132,825</u>
Net Changes in Fund Balance	(500,000)	(500,000)	4,362	504,362
Fund Balance - Beginning	<u>500,000</u>	<u>500,000</u>	<u>243,143</u>	<u>(256,857)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 247,505</u>	<u>\$ 247,505</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,573,000	\$ 1,573,000	\$ 1,271,363	\$ (301,637)
Charges for Services	35,000	35,000	31,150	(3,850)
Miscellaneous	36,000	36,000	17,016	(18,984)
Interest	1,000	1,000	1,794	794
 Total Revenues	 1,645,000	 1,645,000	 1,321,323	 (323,677)
EXPENDITURES				
Protection to Persons and Property	1,488,400	1,488,400	1,372,243	116,157
Administration	606,600	606,600	570,355	36,245
 Total Expenditures	 2,095,000	 2,095,000	 1,942,598	 152,402
 Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	 (450,000)	 (450,000)	 (621,275)	 (171,275)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	400,000	400,000	643,797	243,797
Transfers to Other Funds			(123,944)	(123,944)
 Total Other Financing Sources (Uses)	 400,000	 400,000	 519,853	 119,853
 Net Changes in Fund Balance	 (50,000)	 (50,000)	 (101,422)	 (51,422)
Fund Balance - Beginning	50,000	50,000	140,574	90,574
 Fund Balance - Ending	 \$ 0	 \$ 0	 \$ 39,152	 \$ 39,152

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,000,000	\$ 2,000,000	\$ 966,650	\$ (1,033,350)
Interest			47	47
Total Revenues	<u>2,000,000</u>	<u>2,000,000</u>	<u>966,697</u>	<u>(1,033,303)</u>
EXPENDITURES				
General Health and Sanitation	<u>2,000,000</u>	<u>2,000,000</u>	<u>954,757</u>	<u>1,045,243</u>
Total Expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>954,757</u>	<u>1,045,243</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)			11,940	11,940
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			4	4
Total Other Financing Sources (Uses)			4	4
Net Changes in Fund Balances			11,944	11,944
Fund Balances - Beginning			4,771	4,771
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,715</u>	<u>\$ 16,715</u>

MARSHALL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the General Fund

Total Revenues-Budgetary Basis	\$ 5,153,802
Revenues from Occupational Tax Fund, Occupational Tax Administrator Fund, and Veterans Van Fund reported within General Fund as a result of the adoption of GASB 54	4,863,677
Debt payments made by other entity in accordance with lease agreement	<u>17,214</u>
Total Revenues-Modified Cash Basis	<u><u>10,034,693</u></u>
Total Expenditures-Budgetary Basis	6,226,753
Expenditures from Occupational Tax Fund, Occupational Tax Administrator Fund, and Veterans Van Fund reported within General Fund as a result of the adoption of GASB 54	3,518,576
Transfer from Occupational Tax Administrator Fund to Payroll Fund	300,000
Debt payments made by other entity in accordance with lease agreement	<u>17,214</u>
Total Expenditures-Modified Cash Basis	<u><u>10,062,543</u></u>
Total Other Financing Uses-Budgetary Basis	690,371
Transfer from Occupational Tax Administrator Fund to Payroll Fund	(300,000)
Elimination of transfers among special revenue funds consolidated within the General Fund	<u>(1,148,200)</u>
Total Other Financing Uses-Modified Cash Basis	<u><u>\$ (757,829)</u></u>

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**MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 86,171	\$ 81,288	\$ 167,459
Total Assets	<u>86,171</u>	<u>81,288</u>	<u>167,459</u>
FUND BALANCES			
Restricted For:			
Protection to Persons and Property	51,878		51,878
Assigned To:			
Protection to Persons and Property	<u>34,293</u>	<u>81,288</u>	<u>115,581</u>
Total Fund Balances	<u>\$ 86,171</u>	<u>\$ 81,288</u>	<u>\$ 167,459</u>

The notes to the financial statements are an integral part of this statement.

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MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$ 251,910	\$	\$ 251,910
Intergovernmental		148,391	148,391
Miscellaneous	10		10
Interest	3,033		3,033
Total Revenues	<u>254,953</u>	<u>148,391</u>	<u>403,344</u>
EXPENDITURES			
Protection to Persons and Property	203,260	171,597	374,857
Administration	100,210	32,112	132,322
Total Expenditures	<u>303,470</u>	<u>203,709</u>	<u>507,179</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(48,517)</u>	<u>(55,318)</u>	<u>(103,835)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	31,250	93,750	125,000
Total Other Financing Sources (Uses)	<u>31,250</u>	<u>93,750</u>	<u>125,000</u>
Net Change in Fund Balances	(17,267)	38,432	21,165
Fund Balances - Beginning	<u>103,438</u>	<u>42,856</u>	<u>146,294</u>
Fund Balances - Ending	<u><u>\$ 86,171</u></u>	<u><u>\$ 81,288</u></u>	<u><u>\$ 167,459</u></u>

The notes to the financial statements are an integral part of this statement.

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MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through Grantor's Number	Expenditures	Provided to Subrecipients
Cash Programs:			
<u>U.S. Department of Homeland Security</u>			
Passed Through Kentucky Division of Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA # 97.036)	FEMA-1976-DR-KY	\$ 168,697	*
Hazard Mitigation Grant Program (CFDA # 97.039)	PON2 095 1100001569 1	43,218	
Emergency Management Performance Grant (CFDA # 97.042)	PON2 095 1000000487 1	41,507	
Passed Through Kentucky Office of Homeland Security			
Homeland Security Grant Program (CFDA # 97.067)	PO2 094 1000002603 1	<u>43,362</u>	\$ 43,362
Total U.S. Department of Homeland Security		296,784	
<u>Delta Regional Authority</u>			
Passed Through Kentucky District of Purchase Area Development and Local Government			
Delta Area Economic Development (CFDA # 90.201)	KY 5461	213,464	*
<u>U.S. Department of Energy</u>			
Passed Through Kentucky Department for Local Government			
ARRA - Energy Efficiency and Conservation Block Grant Program (CFDA # 81.128)	EE10028	91,393	
<u>U.S. Department of Transportation</u>			
Passed Through Kentucky Department for Local Government			
Recreational Trails Program (CFDA # 20.219)	KY 20080213-0151	14,904	
<u>U.S. Department of Justice and Public Safety Cabinet</u>			
Passed Through Kentucky Justice Cabinet:			
Emergency Equipment & Surv.	2010-JAG-MARSHALL C-00658	41,985	
Emergency Equipment & Surv. (CFDA # 16.738)	2010-JAG-MARSHALL C-00684	<u>5,585</u>	
Total U.S. Department of Justice and Public Safety Cabinet		47,570	
Total Expenditures of Federal Awards		<u>\$ 664,115</u>	<u>\$ 43,362</u>

* Tested as a major program.

See notes to this schedule.

MARSHALL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal activity of Marshall County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Sub-recipients

Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Marshall County Fiscal Court provided federal awards totaling \$43,362 to the Marshall County Sheriff's Department.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DEAN || DORTON || ALLEN || FORD_{LLC}

The Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 28, 2011. Our report included a reference to other auditors. Marshall County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Marshall County Refuse Disposal District, as described in our report on Marshall County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting on compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of Marshall County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Marshall County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marshall County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marshall County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 through 2011-04 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Marshall County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of Marshall County Fiscal Court in the exit conference on December 21, 2011.

The Marshall County Judge/Executive's responses and the Marshall County Jailer's responses to the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Marshall County Fiscal Court, others within the entity, and the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC
December 28 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

DEAN || DORTON || ALLEN || FORD

The Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of Marshall County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Marshall County's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Marshall County Fiscal Court. Our responsibility is to express an opinion on Marshall County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshall County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshall County's compliance with those requirements.

In our opinion, Marshall County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Marshall County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marshall County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marshall County's internal control over compliance.

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Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC
December 28, 2011

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2011

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County.
2. Four significant deficiencies disclosed during the audit of the financial statements are reported in the Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards. These deficiencies are not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Marshall County, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal awards program are reported in the Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the audit of the major federal awards program for Marshall County expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) and Delta Area Economic Development (CFDA #90.201).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Marshall County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES

2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the County's assets and ensure accurate financial reporting.

Condition: The Treasurer posts to the receipts ledger, prepares bank deposits, prepares bank reconciliations, and prepares financial reports. In addition, the Occupational Tax Administrator posts occupational tax collections to the occupational tax subsidiary ledger and prepares bank deposits.

Cause: The Fiscal Court's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued)

2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the cash collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved. Specifically the following procedures could be implemented to strengthen the internal control process:

- An independent person should be responsible for opening the mail and listing all receipts. The employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. Occupational tax returns should be stamped with the date received. This list should be agreed to the Treasurer's receipts ledger and the bank deposit slip. The person should initial the listing to document their review in comparison to the receipts ledger and bank deposit slip.
- An independent person, such as the Judge/Executive, should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person should initial the bank statement to document their review.
- An independent person, such as the Judge/Executive, should review the Treasurer's bank reconciliations for accuracy and timeliness. The person should initial the bank reconciliation to document their review.

County Judge/Executive's Response: We will take recommendations into consideration and implement changes where we feel both internal controls and time management would be improved. Bank statements are now received by the County Treasurer and the County Judge/Executive (by email) as well as being submitted along with the Treasurer's Report for Fiscal Court review and approval.

2011-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

Criteria: According to KRS 337.320, "Every employer shall keep a record of. . . the hours worked each day and each week by each employee." Good internal controls dictate that all timesheets be signed by employees and have supervisory approval.

Condition: During our testing of payroll, we noted 14 instances of time sheets that were not signed by the employee and/or supervisor. We also identified two instances where time cards were not maintained by salaried employees. Additionally, we noted that the Finance Officer and the Treasurer do not receive information pertaining to the departmental vacation and sick time records for a majority of the fiscal year.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued)

2011-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping (Continued)

Cause: It appears that the lack of signatures on timesheets was caused by administrative oversights. With regards to the lack of communication of sick and vacation time records, the Fiscal Court did not have a policy for a majority of the fiscal year to mandate each department to provide sick and vacation time records to the Finance Officer and/or the Treasurer. We did note however, that this situation was rectified in the last quarter of the fiscal year.

Effect or Potential Effect: The County is not in compliance with KRS 337.320. Further, the Fiscal Court was unable to monitor compliance with vacation and sick time policies due to the lack of communication from departments.

Recommendation: In order to strengthen internal controls over payroll and ensure compliance with KRS 337.320, we recommend that the Finance Officer and/or Treasurer ensure that the employee and employee's supervisor have signed the timesheet prior to processing payroll. All employees, with exception of elected officials, should be required to maintain a time sheet. In addition, we recommend that each department continue to submit sick and vacation time records to the Finance Officer and/or Treasurer on a periodic basis.

County Judge/Executive's Response: Employees and Supervisors have been reminded of the importance of signing all payroll time records. In addition, we require departments to disclose sick and vacation time records to the Treasurer's Office on a monthly basis.

2011-03 The Fiscal Court Has A Deficit of \$240,756 In The Payroll Revolving Account

Criteria: The Department for Local Government's Budget Manual states that the Treasurer should only countersign checks when sufficient fund balance and adequate cash is in the bank to cover the check.

Condition: During our analysis of the year-end payroll revolving account reconciliation, we noted that there was a deficit balance of \$240,756 after taking into consideration payroll liabilities.

Cause: The Fiscal Court pays the Sheriff's payroll directly from the payroll revolving account even if there are insufficient funds in the account to cover the Sheriff's payroll costs. The Sheriff submits payroll bi-weekly to the Treasurer to process but does not always provide adequate funds to cover the cost of the payroll expenses. Historically, the Sheriff submits partial reimbursements throughout the year to cover prior payroll expenses, which are deposited directly to the payroll revolving account.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued)

2011-03 The Fiscal Court Has A Deficit of \$240,756 In The Payroll Revolving Account
 (Continued)

Effect or Potential Effect: The Fiscal Court is utilizing cash from other funds of the County in order to cover current period cash outflows for the Sheriff's payroll. During fiscal year 2011, it was noted that \$600,000 was transferred from the Occupational Tax Administrator Fund to the payroll revolving account in order to prevent a deficit fund balance in the account. Of the \$600,000 transferred to the payroll account, only \$300,000 was transferred back to the Occupational Tax Administrator Fund from the payroll revolving account. Further, the Sheriff's payroll expenses and the related reimbursements are not being reflected within the Fiscal Court's financial statements.

Recommendation: We recommend that the Fiscal Court require the Sheriff to provide the County with adequate funds prior to processing the payroll of the Sheriff's Office. Amounts transferred from other funds to the payroll revolving account should be transferred back prior to the end of the fiscal year. Alternatively, we recommend that the County incorporate the Sheriff's payroll expenses within the budget of the General Fund or require the Sheriff to "fee pool" whereby the Fiscal Court would pay all of the Sheriff's operating expenses and the Sheriff would remit excess fees monthly rather than at year-end.

County Judge/Executive's Response: We will advise the Fiscal Court of these recommendations and ask them to take it into serious consideration.

2011-04 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

Criteria: The County should have a policy and procedure to ensure that cash receipts are matched to amounts billed to ensure that all amounts billed are collected in full.

Condition: The Jailer is responsible for creating and sending bills to relevant third parties. The Treasurer receives the payments and posts the receipts to the cash receipts ledger. Amounts billed by the Jailer are not compared to cash receipts to ensure that all amounts billed are collected.

Cause: There is no policy or procedure to ensure coordination between the Treasurer and the Jailer.

Effect or Potential Effect: Amounts billed could remain uncollected, resulting in lost revenue for the County.

Recommendation: We recommend that a procedure is implemented to ensure that cash receipts are matched to amounts billed and that either the Treasurer or the Jailer be made responsible for ensuring that all amounts billed are collected.

County Judge/Executive's Response: In FY 11/12, the Treasurer sends the Jailer monthly reports itemizing all receipts received for the month. The Jailer then reviews that list and notifies anyone unpaid.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued)

2011-04 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices (Continued)

County Jailer's Response: As of July 1, 2011, we sent invoices to treasurer's office. Then County treasurer can match check to invoice.

C. FINDINGS AND QUESTIONED COSTS –MAJOR FEDERAL AWARDS PROGRAM AUDIT

There were no matters to report.